

EMPLOYER

California Public Employees' Retirement System

NEWS



NEW HAND AT THE CalPERS HELM: FRED R. BUENROSTRO JR.

selected from a field of 14 candidates in a search process run by Heidrick & Struggles of San Francisco, a leading global retained executive search firm.

Buenrostro sat on the CalPERS Board as a representative for two state controllers and three state treasurers. In his most recent role for the Department of Personnel Administration, he served as its top administrator and advisor to the director on a wide range of policies and programs affecting state employees.

Previously, he was Deputy Controller of the California State Controller's Office (1992-1999). Between 1985 and 1992, he served as Legal Counsel/Deputy Treasurer. Buenrostro's 20-year career in government also included service as Assistant Executive Secretary of the Victims of Violent Crimes Program for the State Board of Control between 1981 and 1985.

Met Fred Buenrostro Jr., the seventh Chief Executive Officer to lead the nation's largest public pension fund. He's no stranger to CalPERS, having served on its Board of Administration for more than 12 years. He also is a veteran public servant, most recently serving as Chief Deputy Director of the State Department of Personnel Administration.

Buenrostro, 52, will oversee the System's 1,600 employees, a budget of more than \$241.4 million, and operations spanning investments, health and retirement benefits administration, actuarial and employer services and other supplemental programs. He succeeds James E. Burton who left in August. In September, Buenrostro was

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CalPERS Conference 2002—A Success!

CalPERS Conference 2002—Working Toward Solutions was another huge success with over 640 attendees. This year's conference was held in Sacramento at the Sacramento Convention Center on October 28-30th. The conference opened enthusiastically with patriotic music by Fair Oaks' Bella Vista High School's award-winning 70-piece marching band, along with members of the California State University, Sacramento ROTC program to complete the flag ceremony.

Two dynamic luncheon keynote speakers highlighted the event. Dr. Ken Dychtwald, best selling author, psychologist, gerontologist and futurist, gave a fast-paced, humor filled presentation on the "age wave" and its implications. As the

baby boomer generation ages, products and services will be impacted as they never have before. He challenged attendees to reflect on how we might reinvent ourselves after retirement.

Tuesday's keynote speaker was Dr. Mark Smith, President and CEO of the California Health Care Foundation. Dr. Smith provided thought-provoking information on the Health Maintenance Organization (HMO) system, including why HMO's were developed and the challenges they are currently facing. He explained that it is important for our employees to understand the costs of health care when we are faced with increasing co-pays.

This year's workshops were very well received. Comments received from attendees indicated that the most popular workshop was, "Do You Have the Answers?" presented by Steve Pietrowski, Manager of our Fresno Regional Office. This workshop presented commonplace issues human resource staff must handle every day, such as terminations, disabilities, terminal illness, death and beneficiary designations. Would-be participants were turned away at the

door when the session hit capacity. A repeat session was announced to a burst of applause.

Also popular as ever were the variety of actuarial and health benefit related workshops. Workshops specifically for schools and state were added to the agenda this year, and "CalPERS Does That?" offered a fun, interactive way to learn about all the services provided by CalPERS using a game board.

CalPERS Board Member Rob Feckner presented the annual "Spotlight On Excellence" award at the social event on Tuesday evening. This year's award went to the Los Angeles Unified School District's Instrument Repair Shop, the largest musical repair shop in the world employing 23 employees who repair instruments for elementary, middle and high school programs.

Staff are already at work planning the 2003 conference in San Francisco on October 20-22. We hope you will be able to join us.

EMPLOYER NEWS

CalPERS Employer News is published quarterly by the Actuarial and Employer Services Division of the California Public Employees' Retirement System. The purpose of this publication is to keep employers informed about CalPERS.

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He earned his bachelor's of science degree in Business Administration from Pepperdine University and his law degree from McGeorge School of Law, University of the Pacific.

"I look forward to working with the board, staff, and our employers to meet the challenges of the future," Buenrostro said, adding, "I am confident that we will continue on our path of exceptional service, sound investments and efficient administration."

CalPERS Embarks on Imaging of Employer Records

CalPERS has successfully completed the digital imaging of all member records and staff have been retrieving those records on their desktops since June 24, 2002. After spending 70 years of keeping virtually every piece of paper created for its members, CalPERS has taken a giant leap into the world of digital images.

Transforming 1.4 million member files (over 51 million pieces of paper) into retrievable digital images was challenging for CalPERS staff. While member files were systematically being sent to a vendor for scanning, we had to ensure that member requests for service credit, retirement benefits, account audits, etc., continued to be processed on a timely basis.

While the member files were being imaged, the CalPERS Records Retention Project Team was busy gathering all the data necessary to develop the image retrieval system, all the while enabling staff to continue to perform their work



without a hard copy file. The CalPERS Information Technology Services Division (ITSD) worked with consultants to ensure that all the necessary hardware and software items were purchased, tested,

installed, and compatible with other CalPERS systems.

With the rampant growth of paper records, we needed to plan for the growth of digital records. Toward that end, CalPERS established a new Formal Records Retention Program to include policies and procedures to help manage paper growth.

Having the ability to access member records immediately has dramatically improved our customer service. When a member or employer calls for help, we no longer ask them to wait several days while we order the member file. We can retrieve the member record immediately.

What's next for CalPERS and imaging? In our continuing effort to improve customer service and manage records throughout the enterprise, CalPERS has started the process of imaging employer records. We expect to complete this phase of the Records Retention Project in December 2003.

CalPERS Offers Online Change of Address

CalPERS is pleased to announce our newest online member service—**Change Your Address**. CalPERS active and retired members can now change their mailing address and phone information using the CalPERS web site.

One of the most frequent calls received by our Customer Contact Center is to notify CalPERS of an address change. This new online service will provide another avenue for members to keep their personal information current. Since this service accesses membership data, customers must have a Personal Identification Number (PIN). Registering for a PIN can be done online on CalPERS On-Line at www.calpers.ca.gov.

Employers are encouraged to take a look at the Change Your Address online service.

Laws Impacting CalPERS Employers and Members

During the second half of the 2001-2002 legislative session, several bills were chaptered that may impact CalPERS members and employers. The following list provides a brief summary of the significant changes.

Additional information (i.e., bill language, legislative analysis, bill history, etc.) can be found on the State of California Legislative Council Web site at www.leginfo.ca.gov.

CalPERS Board Member Designee

AB 42, Negrete and McLeod (Chapter 729, Enacted 9/20/02)—Authorizes the member of the CalPERS Board of Administration who is an elected official of a contracting agency appointed by the Governor to designate a deputy to act in the member's absence.

California Tax Conformity— Rollover Provisions

AB 131, Corbett (Chapter 30, Enacted 4/26/02)—Conforms state law to provisions of EGTRRA with respect to rollovers allowed among various types of plans and the purchase of service credit and redeposit of previously withdrawn contributions under governmental defined benefit plans. Allows a member who retired after January 1, 2002, to perform a rollover from a 457 or 403(b) plan in order to purchase service credit. The rollover must be performed within 120 days of enactment of legislation to conform California's tax laws to federal provisions of EGTRRA. Takes effect immediately as a tax levy.

California Conformity with Economic Growth Tax Relief and Reconciliation Act (EGTRRA)

AB 1122, Corbett (Chapter 35, Enacted 5/8/02)—This bill conforms California tax law with the federal provisions of EGTRRA affecting pensions and tax qualified retirement savings accounts.

HMO Geographic Access Standards

AB 1282, Cardoza (Chapter 549, Enacted 9/15/02)—Requires DMHC to adopt regulations to establish extended geographic accessibility standards for access to providers contracting with an HMO in counties with 500,000 residents or less and less than three HMOs providing coverage to the entire county in the commercial market. Also requires health plans to hold public meetings and provide notification in areas where coverage is expected to be withdrawn, prior to making such a request to DMHC.

Long-Term Care Program

AB 1908, Cohn (Chapter 871, Enacted 9/26/02)—Deletes the requirement that the full cost of enrollment in the CalPERS long-term care program be paid by the enrollees and makes related conforming changes.

Risk Pooling

AB 1974, Pescetti (Chapter 1133, Enacted 9/30/02)—Clarifies specific aspects of pooling and CalPERS' administrative role in the creation and administration of the risk pools. The Board

will determine the criteria under which local agencies must participate in risk pools, but may not require employers with more than 100 active employees to participate in pools. Facilitates participation by school employers by clarifying that if a school employer chooses to participate in a risk pool with a contribution rate that differs from the contribution rate established for school employers under the statewide Schools Plan, such participation will not impact the State's school funding formula for that school employer. Defines school members as local miscellaneous members and makes them eligible for benefits applicable to local miscellaneous members when the school member is employed by a school employer participating in a pool. Defines specific benefits that shall be included in all risk pools.

Consumer Health Care Benefits Commission Act

AB 1996, Thomson and Nation (Chapter 795, Enacted 9/22/02)—Requests the University of California to prepare a written analysis of the public health, medical, and financial impact of proposed mandated benefits to be provided by health plans and insurers. The evaluation would be funded by fees assessed on health care service plans and insurers.

Local Safety for Prosecutors, Public Defenders, and Public Defender Investigators

AB 2023, Frommer (Chapter 1152, Enacted 9/30/02)—Classifies local

prosecutors, public defenders, and public defender investigators as local safety members and makes them subject to local safety retirement and benefits by contract option. Any contracting agency that amends for this section will have to include in the reclassification persons who were employed in these positions on or after January 1, 2002—even if they are no longer employed at the time of contract amendment. Reclassifies state prosecutors in the Department of Justice and defenders in the State Office of the Public Defender to the state safety class, subject to MOU. Specifies that these employees may not receive the 3 percent at age 50 retirement formula and restricts industrial disability benefits and the Special Death benefit to be applicable only when disability or death is the result of a violent attack incurred in the performance of official duties. This bill includes similar provisions applicable to '37 Act and other local public retirement systems.

Continued Health Coverage for Local Safety Survivors

AB 2059, Rod Pacheco (Chapter 733, Enacted 9/20/02)—Requires public agency employers to continue providing the employer contribution toward health benefits for up to 120 days following the date of death, as specified, to the survivors of specified deceased active safety employees. Urgency measure.

Open Meeting Act; Closed Sessions

AB 2072, Mountjoy (Chapter 1113, Enacted 9/29/02)—Enables a state body

subject to the Open Meeting Act to discuss security issues in closed session—specifically matters posing a threat of criminal or terrorist activity against personnel, property, buildings, facilities or equipment, including electronic data, owned, leased, or controlled by the state body. A closed session for this purpose may be held upon a two-thirds vote of the members present. The state body must reconvene in open session prior to adjournment to report the general nature of the matters discussed and whether any action was taken in closed session, and must submit written notice to the Legislative Analyst that a closed session meeting was held under this authority. Becomes inoperative on January 1, 2006.

CalPERS Membership for Temporary Part-Time CSU Faculty

AB 2549, Nation (Chapter 1045, Enacted 9/28/02)—Provides CalPERS membership for temporary CSU faculty who perform a minimum teaching load of six weighted teaching units or more. Specifies that CalPERS membership for these temporary part-time CSU faculty does not apply unless provided for in a memorandum of understanding or authorized by CSU Trustees for employees excluded from collective bargaining.

Redeposit and Retirement Rights

AB 2766, Runner (Chapter 883, Enacted 9/26/02)—Allows a non-vested member in the 1937 Act or reciprocal California independent retirement systems to leave contributions on deposit when the

member leaves employment. Members who go on to membership in CalPERS or other reciprocal systems may receive a benefit for that service when retiring concurrently from all retirement systems. These provisions are already available to members in CalPERS. The bill also allows a current or former safety member in the 1937 Act or California independent retirement systems who withdrew contributions and is now in membership in CalPERS or a reciprocal system to redeposit the contributions and interest and thereby be eligible to receive a retirement benefit for that service. This bill does not affect the rights or limitations of reciprocity. Members with service in more than one retirement system will continue to be subject to the 6 month time limitation for movement between employers in order to be eligible for reciprocal benefits.

Contract Cost Quotations for Employee Groups

AB 2909, Wiggins (Chapter 889, Enacted 9/26/02)—Requires that employers and employee groups be treated equally with regards to charges for valuations of contract amendments and new contracts. Also requires employers and employee groups to provide copies to each other of new contract and contract amendment valuations provided by CalPERS.

Limitation of Post Audit Employment

AB 2970, Wayne (Chapter 232, Enacted 8/26/02)—Prohibits auditors,

Laws Impacting CalPERS Employers and Members— Continued from Page 5

as specified, from accepting employment from a publicly traded audit client for a period of 12 months after completion of the audit. A violation of this prohibition would subject the auditor to disciplinary action by the Board of Accountancy.

Code Maintenance

AB 3034, Assembly Judiciary Committee (Chapter 664, Enacted 9/18/02)—Makes technical, non substantive changes to California's Codes as recommended by the Legislative Counsel, including some provisions of the Government Code administered by CalPERS.

Board Elections; Payrate;

Member Contributions;

Reportable Compensation

AB 3040, Assembly PER&SS Committee (Chapter 1139, Enacted 9/30/02)—Extends the filing period for new candidates by 10 days when an incumbent member of the CalPERS board does not file for reelection. Adds a definition of "payrate" to provisions governing "compensation earnable" for all members to include any amount deducted from a member's salary for participation in a cafeteria or flexible benefits program. Such deductions are includable in "payrate" for CalPERS purposes under current law. This bill would establish an express statutory provision. Provides that when employer assets are used to pay member contributions, the contributions of all members in a member classification must

be paid equally. Also requires an employer, upon request by the member, to meet with and explain to the member the elements of his or her past or current compensation that shall be reported to CalPERS as final compensation for retirement benefits. Changes local contracting provisions with regards to transfer of assets.

California Conformity with EGTRRA

SB 657, Scott (Chapter 34, Enacted 5/8/02)—Conforms state law to provisions of EGTRRA that apply to pensions, annuities, tax-sheltered retirement plans, and deferred compensation plans. Also conforms to provisions affecting education IRAs. Takes effect immediately as a tax levy.

State Employees—Military Benefits

SB 711, Dunn (Chapter 5, Enacted 2/13/02)—Extends state employees' right to benefits and augmented pay for up to 365 days (currently 180) when called into active National Guard or military reserve duty due to the War on Terrorism. Urgency measure.

Medically Necessary Prescription Drugs

SB 842, Speier (Chapter 791, Enacted 9/22/02)—Requires health plans that provide prescription drug benefits to provide coverage for all medically necessary outpatient prescription drugs. Clarifies that DMHC has the right to regulate a health plan's provision of prescription drug benefits.

Statutory Conformance—

Court Unification

SB 1316, Senate Judiciary Committee

(Chapter 784, Enacted 9/22/02)—

Conforms various statutory provisions of law to the abolition of municipal courts and their unification within the superior courts. Makes conforming amendments to six sections in the codes administered by CalPERS.

Local Sheriff—Shasta and Butte Counties

SB 1317, Johannessen (Chapter 114, Enacted 7/5/02)—Allows a marshal, deputy marshal, or district attorney investigator of Shasta County, or a district attorney investigator in Butte County to be classified as a "local sheriff," rather than a "county peace officer," to provide the same CalPERS benefits to all members represented by the deputy sheriffs' bargaining units in those counties. Requires the "local sheriffs" as defined in this bill for these counties to enter an applicable risk pool as soon as CalPERS has risk pools in place and available to local contracting agencies. Urgency measure.

Minimum Employer Contribution for Health Benefits

SB 1464, Soto (Chapter 896, Enacted 9/26/02)—Increases the minimum employer contribution for contracting agencies participating in PEMHCA from \$16 per month per employee or annuitant to reach \$97 per month for the 2008 calendar year. The \$97 would be adjusted annually thereafter to reflect changes in the medical care component of the Consumer Price Index.

PEMHCA Flexibility

SB 1536, Soto (Chapter 898, Enacted 9/26/02)—Provides the CalPERS Board greater authority and flexibility in responding to the health care challenges currently facing the PEMHCA program.

Patrol Membership for Trainees

SB 1801, Peace (Chapter 902, Enacted 9/26/02)—Converts state miscellaneous service earned while a student at the California Highway Patrol's training school

to patrol service once the CHP trainee becomes an officer. Specifies that service will be converted if member does not elect, upon notification, to keep service as miscellaneous service. Extends differential pay, by order of the Governor, for another 365 days for state National Guard and military reserve units fighting the War on Terrorism. Increases the retirement allowance that will be payable to the Commissioner of the California Highway Patrol by raising the statutory retirement

benefit limit of 90 percent to 100 percent for the Commissioner only until January 1, 2008.

Public Service—AmeriCorps

SB 2094, Senate PE&R Committee (Chapter 546, Enacted 9/15/02)—Expands current provisions allowing the purchase of up to three years of "public service" defined as volunteer service in the Peace Corps or AmeriCorps: VISTA to also include volunteer service in AmeriCorps.

Regional Offices Offer Convenient Access To CalPERS Benefits Information and Counseling

Placed strategically throughout the state of California, the regional offices are an important part of the CalPERS commitment to high quality customer service. Assigned responsibility for a specified county or counties, they are open Monday through Friday, 8 a.m. until 5 p.m. and are staffed by specialists who offer counseling, and information to members, retirees, employers, and the general public, covering a broad range of topics.

At each regional office members can attend two-hour workshops on CalPERS retirement planning. These presentations are designed to meet the needs of those who are thinking about retiring soon, but they also provide a valuable overview for members who just want to know more about their CalPERS benefits. Members can also visit a regional office and attend one of two all day seminars—one designed for members who are within ten years of retiring, and another designed

for members who are more than ten years away. Both cover the CalPERS programs in detail (including pension and health benefits, disability benefits, plus the home loan and long-term care plans), Social Security, tax-deferred savings, financial planning, insurance planning, estate planning, and more. These workshops and seminars are also offered at various field locations in the region frequently throughout the year. Members have the capability to register for one of the workshops or seminars by phone or on-line by visiting the CalPERS Web site at www.calpers.ca.gov.

The CalPERS regional office specialists are immediately available in the event that a member needs to retire quickly, due to an accident, illness, or other emergency. They also receive training in the disability and industrial disability retirement regulations, and will provide information to both members and employers concerning this valuable

benefit. They can counsel members and employers on the reciprocal arrangements that CalPERS has with other public employee retirement systems in the state. The specialists will arrange customized presentations for individual employers upon request, and can hold the meeting at a location of their choice. This presentation can be tailor-made to meet your individual needs with focus on your agency's unique benefits.

The eight regional offices are located in the cities of Sacramento, Fresno, Glendale, Mountain View, Orange, San Bernardino, San Diego and San Francisco. We are here to serve the needs of both you and your employees, and we encourage you to take advantage of the many services they provide. For specific addresses or other information, please call us toll free: (877) 720-7377 or visit our Web site at www.calpers.ca.gov. We look forward to hearing from you!

RISK POOLING

Over the years, CalPERS has experienced phenomenal growth. This growth has been in assets, covered members, contractual employers and, for better or worse, in pension benefit contract options and the number of distinct plans that require service. Delivery of quality customer service has become more difficult because of the growing number of plans and their increased complexity.

More importantly, the manner of growth may not serve members or employers well. There are over 1,400 separate plans at CalPERS with less than 100 active members. Under the current contract methodology, each employer and its employees, regardless of size, choose from the wide variety within the existing pension benefit menu. Hundreds of these small employers select benefits that carry financial risks too large for a small group to accept on their own. All too often a single catastrophic event such as death or disability can cause a small employer's contribution rate to increase by 50 percent, or even 75 percent, of total payroll. Even one unexpected early retirement in a small plan can have a devastating impact on the employer's contribution rate. Pooling assets and liabilities across employers to produce large risk sharing pools would dramatically reduce or eliminate the large fluctuation in the employer's liability. Small employers are well advised to pool together with other employers with similar pension benefits in order to spread the risks of catastrophic events.

Brief History of Pooling

Pooling is not a new concept at CalPERS. Over thirty years ago, all miscellaneous members were pooled in a single risk pool. In 1989, Section 20815 of the Government Code discontinued the public agency miscellaneous pool and the structure as we know it today began.

In 1999, CalPERS sought legislation that resulted in the addition of Section 20225.5 to the Government Code giving the CalPERS Board authority to create risk pools as a contract option. However, in February 2002, the CalPERS Board approved staffs' conceptual pooling recommendations including the desire to mandate pooling for small employers. In 2002, Assembly Bill 1974 gave the CalPERS Board the authority to mandate participation in pools for "small" employers. The legislation allows the CalPERS Board to clarify "small" through regulations as not greater than 100 active members.

As it worked its way through the legislative process, amendments to Assembly Bill 1974 added provisions that require that each pool must contain the following benefits that were previously optional contract provisions:

- The pre-retirement option 2 death benefit—i.e., a death benefit, payable to the spouse of an active member eligible to retire, equal to what the spouse would have received if the member retired, elected the 100 percent joint and survivor form of benefit, and then died
- The conversion of unused sick leave to retirement service credit
- The ability for members to convert, at their own expense, prior military service and prior public service to CalPERS retirement service
- The cancellation of any remaining payments owed by the member for the purchase of optional service credit upon the employment related disability of the member (i.e., upon industrial disability retirement or IDR as it is called)
- Local system service credit included in basic death benefit

CalPERS' actuaries estimate that the impact of mandating these benefits will be less than 1 percent of payroll.

Pooling Related Issues

Over the last few years, CalPERS staff have worked to find the best approach to create and administer risk pools. Task force meetings involving employers and union representatives were held in order to share and gather ideas. The 2000, 2001 and 2002 CalPERS Employer Conference also featured a presentation on risk pools.

Because each employer's plan is unique, creating risk pools from this diverse public agency community is a difficult task. Reasons include the fact that employers' plans have different funded status, different ancillary benefits, different demographics, different superfunded status and different amortization schedules. The proposed approach to handle

the issues created by these differences are addressed below. In addition, this article addresses how employers will be able to improve benefits after pooling.

Before going into pooling related issues, it is important for the reader to have a basic understanding of the actuarial funding process. The most basic tenet is referred to as intergenerational equity. This means that the taxpayers receiving service from a public employee should pay for the wages and benefits of that public employee during the employee's career. So, a major goal of the actuarial funding of a public employee's pension is as follows. Before the employee leaves employment, the employer should accumulate assets that are sufficient to pay all future benefits for that employee. In order to accomplish this, the actuarial funding method assigns to each year of service of the employee an annual cost sufficient (with interest) to cover all future benefits of that employee due to that year of service. This annual cost is referred to as the normal cost for that year. At the end of each fiscal year, the accumulated value of all prior normal costs is referred to as the accrued liability (sometimes called the past service liability). It can be thought of as the level of assets needed to be "on schedule" in funding each employee's ultimate benefits.

At the end of each fiscal year, an actuarial valuation is performed to measure the funded status of the plan. The funded status is a comparison of the actuarial value of assets to the accrued liability, i.e. a comparison of

actual assets to the scheduled level of assets. A plan is "on schedule" when assets exactly equal the accrued liability. A plan with assets in excess of the accrued liability is ahead of schedule and said to have a surplus. An employer can temporarily contribute less than the normal cost to such a plan. A plan with assets less than the accrued liability is behind schedule and said to have an unfunded liability. An employer must temporarily contribute more than the normal cost to such a plan to get back on schedule.

With this basic understanding, the various issues confronting the pooling of multiple plans can be addressed.

Pooling Issue #1— Differences in Funded Status

Employers bring plans with various funded status to a risk pool. It is desirable and perhaps politically necessary for employers to maintain their existing surplus or unfunded liabilities upon entering the pool. This will be accomplished through the creation of side funds. That is, at the time of creation of the pool, a plan entering the pool will receive credit **within the pool** for assets equal to 100 percent of their accrued liability and the difference between their actual assets and their assets credited to the pool will become their side fund. As a specific example, a plan entering a pool at the time of its creation with an actuarial value of assets of \$12 million and an accrued liability of \$10 million will have assets within the pool of \$10 million and a side fund of \$2 million. Likewise, a plan

entering a pool at the time of its creation, with an actuarial value of assets of \$8 million and an accrued liability of \$10 million will have assets within the pool of \$10 million and a side fund of negative \$2 million.

This will make the pool exactly 100 percent funded at the time of its creation, so that the pool's first year contribution rate will be the pool's normal cost. Each employer within the pool will have a rate equal to the pool's rate plus the amortization of their own side fund (positive or negative).

Pooling Issue #2— Differences in Ancillary Benefits

As a result of the growth in the number of different benefits options available at CalPERS, current contracts contain over 650 unique benefit packages. Here a benefit package is the complete set of retirement, disability, death, etc., benefits contained in the employer's contract with CalPERS. In order to attempt pooling with this wide array of benefit packages, it was decided to separate existing benefits into four categories and potentially treat each category differently in pooling plans together. The four categories are as follows:

- Category 1: These are the most expensive fundamental benefit provisions. They include the service retirement formula, the final average compensation period, the post-

Risk Pooling— Continued from Page 9

retirement survivor allowance (i.e., the percent of the pension that automatically continues to the spouse of a retiree after the retiree's death), and automatic annual post-retirement cost-of-living adjustments to retirees.

Separate pools will be created based on category 1 benefits only. In order to create fewer pools, the pools might be created based on service retirement formula alone with other benefit provisions listed as category 1 benefits above actually treated as category 3 benefits as discussed below.

- Category 2: These are relatively inexpensive ancillary benefits. They include unused sick leave credit (mandated in pools by AB 1974) and post-retirement lump sum death benefit.

Within each pool, category 2 benefits will vary by employer within the pool. However, the employer contribution rate will not vary within the pool due to their category 2 benefits. A study performed by CalPERS actuaries demonstrated that the difference in the normal cost between a plan containing no category 2 benefits and a plan containing all category 2 benefits is about 0.5 percent of payroll.

- Category 3: These are the more expensive ancillary benefits. They include such provisions as improved industrial disability retirement. As discussed below they might also include some of the benefits listed as category 1 benefits above.

The accrued liability (past service liability) due to category 3 benefits will be equitably assigned to each employer at the time of joining a pool in the establishment of their side fund. That is their side fund will be smaller because the assets credited to the pool on their behalf will be sufficient to cover the past service liability of their category 3 benefits. If a plan has category 3 benefits, a load/surcharge equal to the incremental normal cost of the category 3 benefits will be added to their employer contribution rate to cover the additional normal cost for the category 3 benefit.

- Category 4: These are one time benefit increases not impacting the normal cost. They include golden handshakes and ad hoc increases for retirees.

Category 4 benefits may be charged to the employer's side fund.

Pooling Issue #3— Differences in Demographics

The percentage of males versus females within the plan and the ages at hire for active employees within the plan cause differences in normal cost from employer to employer even if the employers contract for the same benefit package. So, it is impossible to pool the many plans at CalPERS and simultaneously avoid the differences in normal costs between plans.

In order to minimize the impact on employer rates on normal cost and minimize the impact on employer contribution rates,

CalPERS is considering phasing out the differences between the pool's normal cost and the individual employer's plan's normal cost over a period of 5 years.

Pooling Issue #4— Differences in Superfunded Status

A plan is considered superfunded if its actuarial value of assets exceeds its present value of benefits. Note the present value of benefits, generally greater than the accrued liability, is the amount of assets sufficient to pay all future benefits without the payment of future employee contributions or employer normal costs. As stated in Section 20816 of the Government Code, such an employer may cover their current year employees' contributions using their employer surplus assets.

After joining a pool, an employer's assets will be equal to a pro-rata share of the pool's assets plus that employer's side fund (which might be negative). Using this definition of assets, superfunded employers can be identified within the pool. Such employers will be allowed to pay member contributions out of their side fund.

Pooling Issue #5— Differences in Amortization Schedules

Currently, each employer has their own unique amortization schedule to use surplus or eliminate an unfunded liability. In order to minimize the impact on employer rates at the

time of joining a pool, each employer will most likely still be subject to their own amortization schedule. However, different amortization schedules for each employer could potentially create problems for the proper funding of the pool.

Ultimately, all plans in the pool should move to a common amortization schedule. Unless there is an immediate funding problem for the pool, this could be done gradually over time.

Pooling Issue #6—Improving Benefits After Pooling

An employer within a pool will be able to improve category 2, 3, or 4 benefits without leaving their current pool.

Each year, the pool's rate will be calculated based on all category 2 benefits contracted for at the time of the valuation. Amendments to improve category 2 benefits will not immediately impact that employer's rate. The impact will be reflected in the following valuation and, ultimately, amendments for category 2 benefits will cause very small increases in the pool's rate.

Amendments for category 3 benefits will be handled as follows. The past service liability for category 3 benefits will be handled by moving assets from the employer's side fund to the pool's assets. The employer will also pay an additional normal cost component equal to the incremental normal cost of the category 3 benefit for which they amend their contract.

For employers contracting for category 4 benefits, current thinking is to charge for the cost of the category 4 benefits through the employer's side fund.

An employer improving category 1 benefits will have to leave their current pool and join the pool offering the desired category 1 benefits. To accomplish this, the plans leaving the pool will take with them their pro-rata share of the pool's assets plus their remaining side fund (positive or negative). These assets will be transferred into the new pool. A new side fund will be created in the pool to which the plan moves. The new side fund will be calculated in a manner that takes into account the differences between the funded ratio of the new risk pool and the funded ratio of the plan entering into the risk pool. Special rules may need to be applied in isolated instances.

Implementation of Pooling

It is important to know that pooling will be implemented in a manner that will minimize the immediate impact on employer contribution rates and in a manner that will recognize existing surplus and unfunded liability.

The implementation process will require regulations introduced through several CalPERS Board agenda items. Employers will be able to follow the progress and comment on the implementation of pooling.

The earliest implementation would be for the employer contribution rate for fiscal year 2005-2006.

CalPERS for Life: Transition to Retirement

CalPERS is always looking for ways to be responsive to the needs of its members. That's why we've produced a 15-minute video for employers to share with their employees who may be considering retirement soon.



The "CalPERS for Life" video provides an overview of what members need to know to prepare for retirement including: retirement planning, direct deposit, taxes, health benefits, employment after retirement, power of attorney, and staying connected. This video supplements CalPERS publications and is one of a series of educational videos that are produced specifically for the benefit of our members.

For a free copy of this closed-captioned video, please call CalPERS Benefit Services Division at (800) 352-2238.

CalPERS Long-Term Care Program

More Choices for the 2003 Application Period

The CalPERS Long-Term Care (LTC) program has once again concluded a very successful application period with the enrollment of over 14,000 new members. This program continues to draw an increasing number of individuals because of the costs associated with long-term care needs.

In September 2002, the CalPERS Board of Administration announced the approval of the next LTC application period. Beginning April 1, 2003, and extending through June 30, 2003, all California public employees (including non-CalPERS members), retirees, their spouses, parents, parents-in-law, and siblings (aged 18 and over) will have the opportunity to apply for coverage.

CalPERS LTC coverage pays for the extended care that would be needed when due to a chronic illness, injury or frailty of old age, help is required with basic activities such as dressing, bathing, or eating. LTC plans can help pay for extended care at home, care in an assisted living facility, adult day care center, or in a nursing home. Today, the average cost for one year in a nursing home is over \$50,000.

Beginning with the 2003 Application Period, applicants will have more choices than ever before. They will have a broader array of Daily Benefit Amounts to pick from and an increased Assisted Living Facility Maximum Daily Benefit.

In January 2003, Employer Orientation Meetings will be held throughout the state to kick off the 2003 Campaign. All education materials needed to inform your employees of

the LTC benefit will be available. Reservations for on-site employee educational seminars can be made at that meeting.

If you are unable to attend an Employer Orientation Meeting, please contact us. We have several types of communication materials to educate your employees about LTC. We would be happy to send whatever you request. You may order free materials by calling toll free: (800) 651-8801 or by emailing: OLTC@calpers.ca.gov.

Employer communication materials available to you:

- Work Site Posters (Generally order one poster per 50 employees)
- Seminar Video (30-minute informational video for employees- Order one per 100 employees)
- "Take One" Brochure (May be placed in employee's mailbox or on counter in Human Resources office. Order one brochure per employee)
- New Employee Leaflet (For new employee orientation sessions or kits)
- Payroll Stuffers (two to choose from / large folded or small "dollar size")

The Employer Kit provides tips on how you can inform your employees about the CalPERS LTC program. It includes newsletter articles to publish in your departmental newsletters, email messages to communicate/educate your employees, and a sample of each educational piece listed above. These Employer Kits will be mailed to you on February 1, 2003.

Long-Term Care Quick Reference Numbers:

(800) 266-1050

Employees may request an application kit

(800) 908-9119

Employees may call with questions on plan choices and options

(800) 982-1775

Employees can check the status of their application and once enrolled; make changes to the coverage

(800) 651-8801

Employers may order LTC materials for their staff

Check Out Our New Online EFT Feature

Beginning in February, you can make your CalPERS retirement and health plan premium payments through the Internet. We already offer Electronic Fund Transfer services through a special phone IVR system, but now you can do your electronic transfer in a secure, efficient, easy-to-use online program. If you are already using EFT through the IVR and want to get online, or are interested in starting up this service, just contact the CalPERS Fiscal Services staff at (916) 231-7738.



Interview with Dr. Crist

Dr. William D. Crist retired January 16, 2003 after 16 years on the CalPERS Board.

Employer News asked him to reflect back and look ahead at CalPERS future.

Q: How would you sum up your long years of service here at CalPERS?

Why are you leaving now?

A: I am not seeking election to another term on the CalPERS Board because I am 64 years old and 16 years (11 as President) on the Board is long enough. I have loved almost every minute of my service, but there are a number of other challenges that also interest me.

During the past 16 years, we have been able to expand service to members through new policies, improved communication and greater use of the internet. Our communication to other stakeholders and the market place in general has also been much improved with the establishing and thoughtful expansion of the CalPERS web site.

The entire period of my service has been a struggle with our health insurance responsibilities. The promotion of managed care and standardization of benefits when the fee-for-service system began to become unaffordable, our standing up to the HMO pressures to just pay whatever they said and our willingness to become part of the national debate on universal care have marked three periods

of imaginative and productive activity by CalPERS.

CalPERS leadership in demanding improved corporate governance has been very important to the positive changes in the corporate community. Current corporate failures document that we have been on the correct side of these issues, but that there is much more to do.

Q: How do you think CalPERS has changed over the years since you first arrived?

The awareness and participation of our members, both active and retired, is much greater. Our internal Board of Administration governance practices have become much more precise, as is demanded by the increasingly complex system.

Q: What do you consider CalPERS' finest accomplishment(s) and its toughest challenge?

Changes that have been made in the way we deliver health insurance coverage represent some of our finest accomplishments and our toughest challenge going forward.

CalPERS ability to lead in the public pension arena with good practices that serve the reliability of the system and the benefit of employee and employer members alike is second to none. The entire CalPERS family should be proud of our proven ability to work together when confronted with difficult choices.

Q: What are the most significant accomplishments as they relate to serving employers?

The CalPERS Board has continued to be sensitive to employers' needs for relative stability in contribution rates. During the past few years, in a very volatile financial market and during good and bad public budget years, CalPERS actuaries and administrators have never lost sight of their responsibilities. I am proud of the outstanding education we provide our trustees regarding the importance of taking the long-term view when analyzing the asset-liability relationship.

Q: What advice do you have for employers going forward in dealing with CalPERS?

I am most proud of working with the Board of Administration to achieve compromise on internal governance guidelines, ethics standards, strategic planning and legislative participation. There are many different interest groups in the greater community seeking to influence CalPERS policy to their specific advantage. Employers, employees and retirees within the CalPERS family can always work together when the System's leaders seek solutions to tough problems through cooperation. All CalPERS employers will find it in their best interest to continue to work with Board leadership to seek positive compromise. There can never be too much communication with each other, nor too much education of all members of the CalPERS family. My advice to all is stay focused on this reality and allocate resources accordingly.

Events of Interest—January through March 2003

| Date | Event | Location |
|-------------------|------------------------------------------------------------------------------|-------------------------------------|
| January 1 | Holiday—New Year's Day, State Offices Closed | |
| 20 | Holiday—Martin Luther King, Jr. Day, State Offices Closed | |
| 27-29 | Board of Administration | Off Site—Napa |
| February 5 | School Employer Advisory Committee Meetings | CalPERS—Rooms 1160/1170, Sacramento |
| 12 | Holiday—Lincoln's Birthday, State Offices Closed | |
| 14 | Finance Committee Performance & Compensation Committee R Street Subcommittee | CalPERS, Auditorium, Sacramento |
| 17 | Holiday—Washington's Birthday, State Offices Closed | |
| 18 | Investment Committee | CalPERS, Auditorium, Sacramento |
| 19 | Health Benefits Committee Benefits and Program Administration Committee | CalPERS, Auditorium, Sacramento |
| 20 | Board of Administration | CalPERS, Auditorium, Sacramento |
| March 14 | Performance & Compensation Committee | CalPERS, Auditorium, Sacramento |
| 17 | Investment Committee | CalPERS, Auditorium, Sacramento |
| 18 | Health Benefits Committee Benefits and Program Administration Committee | CalPERS, Auditorium, Sacramento |
| 19 | Board of Administration | CalPERS, Auditorium, Sacramento |
| 31 | Holiday—Cesar Chavez Day, State Offices Closed | |

Note: Meeting times are announced, when they become available, through Circular Letters and on our web site. Meetings are subject to change. CalPERS: 400 P Street, Sacramento.

ACTUARIAL & EMPLOYER SERVICES DIVISION TEAM LISTING

Email Addresses: firstname_lastname@calpers.ca.gov • Note: All phone numbers listed below are in the (916) Area Code

| FUNCTION | | | | | | | |
|-------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|--------------------------|-----------------------------------------------------|----------|-----------------------------------------------------|----------|--|
| Contribution and Service Adjustments <i>Assist members with last four digits of Social Security Numbers between:</i> | Bonnie Smith | 341-2768 | 0000-4999 | | | | |
| | Roger Santiago | 341-2341 | 5000-9999 | | | | |
| Payroll Processing <i>Payroll Representatives assist employers with the following employer codes for any of the teams:</i> | Artice Brown | 658-1433 | 0000-0199 | | | | |
| | Jeremy Sazaki | 795-0297 | 0200-0399 | | | | |
| | William Murray | 341-2018 | 0400-0699 | | | | |
| | Dema Quintana | 341-2040 | 0700-0849 | | | | |
| | Chiyo Umeda | 326-3220 | 0850-0999 | | | | |
| | Irene Ho | 326-3148 | 1000-1299 | | | | |
| | Kelly Dotters | 341-2798 | 1300-1599 | | | | |
| | Irene Ho | 326-3148 | 1600-1699 | | | | |
| | Artice Brown | 658-1433 | 1700-1799 | | | | |
| | Cindy Ogata | 326-3501 | 1800-9900 | | | | |
| Dean Chamberlin | 558-4033 | Notice of Adjustments | | | | | |
| State and CSU Employer Education | Cheryl Salvador | 341-2918 | | | | | |
| | Annette Unrun | 341-2514 | | | | | |
| Service Credit Inquiry | Jeri Shields | 326-3455 | | | | | |
| Special Adjustments | Linda Poncho | 326-3456 | | | | | |
| | TEAM 1 | | TEAM 2 | | TEAM 3 | | |
| Payroll Discrepancies | Laura Elliot V/TTY | 326-3213 | Cynthia Carter | 341-2988 | Doreen Firman | 341-2002 | |
| | Angel Guterrez | 658-1340 | Judy Fridley | 341-2022 | Bobbi Shahmirzadi | 326-3878 | |
| | | | Sandy Pascual | 326-3205 | | | |
| | | | Danielle Smith | 341-2463 | | | |
| Valuation Services | Stuart Bennett | 326-3004 | Katherine Cheung | 795-0375 | Tim Campas | 795-0243 | |
| | Danny Brown | 341-2565 | Fritzie Hao | 658-1262 | Connie Fleming | 341-2554 | |
| | David Canning | 341-2933 | Robin Kaneshiro | 658-1231 | Tomi Jimenez | 795-0340 | |
| | Rudie Fast | 341-2759 | Rob Millar | 326-3201 | Andrew McDuffie | 326-3894 | |
| | Kelly Fleming | 795-0400 | Hsin-I O'Brien | 341-2923 | Sandy Salady | 658-1411 | |
| | Raymond Obispo | 341-2921 | Gina Subido | 326-3352 | Amy Toy | 658-1319 | |
| Actuary | David Clement | 341-2472 | David DuBois | 326-3427 | Kung-pei Hwang | 326-3411 | |
| | Bill Karch | 341-2856 | Bill Karch | 341-2856 | Barbara Ware | 326-3426 | |
| | Ray Lane | 795-0328 | Gale Patrick | 326-3709 | | | |
| Comp Review | Nikki Cooke | 341-2601 | Ronald Gow | 341-2363 | Becky Bolin | 558-4128 | |
| | Virginia Tellez | 795-0111 | Carlous Johnson | 658-1525 | Alinda Heringer | 341-2204 | |
| Amendment Valuations and Contracts | Alice Cook | 326-3993 | Mike Latino | 795-0242 | Eva Hwang | 326-3683 | |
| | <i>Analyst for Employer Codes ending with 0-7</i> | | <i>Analyst for Employer Codes ending with 0-7</i> | | <i>Analyst for Employer Codes ending with 0-7</i> | | |
| | Danielle Brooks | 341-2488 | Danielle Brooks | 341-2488 | Danielle Brooks | 341-2488 | |
| | <i>Analyst for Employer Codes ending with 8-9</i> | | <i>Analyst for Employer Codes ending with 8-9</i> | | <i>Analyst for Employer Codes ending with 8-9</i> | | |
| | Rachel Evenson | 795-0382 | Rachel Evenson | 795-0382 | Rachel Evenson | 795-0382 | |
| | <i>Analyst for Employer Codes ending with 00-49</i> | | <i>Analyst for Employer Codes ending with 00-49</i> | | <i>Analyst for Employer Codes ending with 00-49</i> | | |
| Sylvia Stephens | 795-0336 | | | | | | |
| <i>Analyst for Employer Codes ending with 50-99</i> | | | | | | | |
| New Agency Valuations and Agreements for Social Security Coverage | Kelli Aoki | 795-0237 | Ellie Wright | 326-3625 | Barbara Patterson | 326-3616 | |
| Employer Education | Laurie Ball | 658-1268 | Koren Lamar | 795-0303 | Karl Klun | 326-3156 | |
| | | | Tammy Sanchez | 658-1461 | | | |
| Member Transactions | Dawn German | 341-2145 | Roberta Doyle | 341-2161 | Sheila Arndt | 326-3855 | |
| | Catherine Husted | 795-0247 | Pearl Karlstad | 341-2146 | Gloria Garcia | 795-0446 | |
| | Oralia Juarez | 326-3877 | Tracy Metzger | 795-0325 | Jackie Goldsmith | 326-3906 | |
| | Rodney Robinson | 326-3438 | Joyce Nolan | 341-2148 | Debbie Macias | 658-1373 | |
| | Wandra Walker | 326-3375 | Lorie Rosales | 326-3265 | Carole Stoffel | 658-1498 | |
| | | | Toni Simms | 341-2009 | Jeannette Thoresen | 795-0323 | |
| | | Wayne Ward | 341-2147 | | | | |
| Counties Teams Assist | Alpine | 2 | Alameda | 1 | Butte | 4 | |
| | Fresno | 10 | Amador | 3 | Kern | 15 | |
| | Imperial | 13 | Calaveras | 5 | Los Angeles | 19 | |
| | Inyo | 14 | Colusa | 6 | Marin | 21 | |
| | Lassen | 18 | Contra Costa | 7 | Monterey | 27 | |
| | Modoc | 25 | Del Norte | 8 | Napa | 28 | |
| | Mono | 26 | El Dorado | 9 | Orange | 30 | |
| | Nevada | 29 | Glenn | 11 | San Benito | 35 | |
| | Placer | 31 | Humboldt | 12 | San Luis Obispo | 40 | |
| | Plumas | 32 | Kings | 16 | Sonoma | 49 | |
| | Sacramento | 34 | Lake | 17 | Stanislaus | 50 | |
| | San Diego | 37 | Madera | 20 | Sutter | 51 | |
| | San Joaquin | 39 | Mariposa | 22 | Tuolumne | 55 | |
| | Santa Barbara | 42 | Mendocino | 23 | Yuba | 58 | |
| | Santa Clara | 43 | Merced | 24 | | | |
| | Santa Cruz | 44 | Riverside | 33 | | | |
| | Shasta | 45 | San Bernardino | 36 | | | |
| | Sierra | 46 | San Francisco | 38 | | | |
| | Siskiyou | 47 | San Mateo | 41 | | | |
| | Trinity | 53 | Solano | 48 | | | |
| | Ventura | 56 | Tehama | 52 | | | |
| | Yolo | 57 | Tulare | 54 | | | |
| | ACES | 1-888-CalPERS (225-7377) | | | | | |

Please check the CalPERS web site at www.calpers.ca.gov for the latest "Employer Contact" information.

Educating State Agencies and the new "CalPERS State Handbook"

The Actuarial & Employer Services Division's Employer Education Unit rolled out the new State Administrative Workshop in July 2002 to seven State agencies: Department of Forestry, Department of Transportation, Employment Development Department, Department of Motor Vehicles, Department of Corrections (including each prison), California Youth Authority, and the California State Universities.

The workshop is designed for State Civil Service agency or California State University (CSU) staff who interact with CalPERS on retirement matters. The topics covered in the workshop include General Information, Membership, Service Credit, Service and Disability Retirement, Retiree Information,

CalPERS Programs, and Legislation pertinent to the State.

The Membership portion includes:

- Determining who is, and is not, eligible for CalPERS membership
- Whether membership is mandatory or optional
- Which State/CSU employees are excluded from membership
- Penalties for failure to enroll employees into membership on a timely basis
- First-Tier and Second-Tier coverage
- Determining account codes

The Membership portion, especially determining the account code, is very important. Placement of an employee

in the wrong account code causes inaccurate retirement contributions and/or Social Security tax withholdings.

Attendees also receive the new "CalPERS State Handbook" used extensively throughout the workshop. Our goal is to familiarize your staff with the Handbook so when they are in the office they can use this new resource.

In February 2003, we will begin scheduling more workshops. Should you have any questions regarding CalPERS, contact your employer representatives for State agencies —Annette Unruh at (916) 341-2514 or Cheryl Salvador at (916) 341-2918.



California Public Employees' Retirement System
Actuarial and Employer Services Division
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